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- | | |
|----------------|--|
| Page 2 | First Step for Reforming EU Common Budget Accepted |
| Page 5 | EU Preparing Ownership Unbundling for the Energy Sector |
| Page 8 | Obligatory Set-Aside Rate for Arable Land Discontinued |
| Page 13 | Commission Wants to Improve Bank Customer Mobility |
| Page 16 | Topic of the Month:
SMEs and their internalization – current trends in the EU |



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Dear readers,

This year's transition from the summer holidays to "live" September European integration events was marked not only by significant topics, but also by the need to resolve extraordinary, one-time situations.

Right at the beginning of September, it was impossible for the European Parliament to not publish a statement on mitigating the consequences of the destructive wildfires that ravaged primarily the southern part of the EU.

The last day of August was the day to remember the one-hundredth anniversary of the birth of one of the symbols of the first phases of the European integration process – Altiero Spinelli, who was the Italian representative to the European Parliament and a member of the European Commission responsible for industrial policies.

The European Parliament also returned to the initiative that was started almost three years ago – and has been more or less slumbering in the background in the meanwhile. This specifically refers to the initiative that will remove inefficient, unnecessary, and muddled standards from European legislation.

The European Commission and its General Directorate for Energy and Transport updated the list of airlines that are prohibited from providing their services within the framework of the EU and made requirements stricter.

During the month of September, a very visible subject of debate – both on the Commission's agenda as well as on Parliament's – continued to revolve around ecological issues, primarily in relation to defining global warming. Discussions pertaining to increased air pollution resulting from the growing intensity of automobile transport were also held.

Stricter provisions were also added to the rules regulating the import of children's toys from China, which do not meet health and safety standards.

Discussions on the text of the Reform Contract also continued over the course of September.

The European Court of Justice denied the appeal made by Microsoft against the three-year-old verdict passed down by the Commission when it ruled that the company had misused its dominant position on the software market and imposed a penalty in an amount of close to 500,000,000 euros.

Finally, at the very end of the month – within the framework of the Fourth Cohesion Forum held on European Commission soil – a debate was initiated on the form and direction that EU structural and cohesion policy should take in the period after 2013.

These and other key current events from recent weeks are commented on in detail in this just-issued EU Monthly News Journal. I wish you enjoyable reading on European integration topics.

Petr Zahradník



The European Commission has started a public consultation on the revision of the common European budget. It is anticipated that the primary changes will be made in order to trim the inefficient subsidies for agriculture and reallocate them to the benefit of increased resources for supporting science, research, and innovation. The actual data on the use of monies from the EU structural funds show that the Czech Republic is one of the less successful countries.

ECONOMY AND EURO

Commission Predicts: EU Economic Growth Will Slow Down

According to a prognosis made by the European Commission, this year **economic growth should reach a level of 2.8% in the EU** and 2.5% in the Eurozone, reflecting a decrease of 0.1 percentage points as compared to the forecast made this spring. The primary reason behind the slowdown is the development during the second quarter of this year, which was weaker than expected.

The most recent forecast is based on updated growth estimates for real GDP and inflation in **France, Germany, Italy, the Netherlands, Poland, Spain, and the United Kingdom** (refer to the tables provided below). The combined GDP of these seven countries accounts for more than 80% of the EU's total GDP.

2007 started off very well for the European economies and, primarily due to massive investments, quarterly GDP growth reached 0.7% both in the EU overall as well as in the Eurozone. During the second quarter, actual GDP growth slowed down to 0.3% in the Eurozone and 0.5% for the European Union overall. This slowdown in growth can partially be explained by seasonal influences and the weather, but also by the fact that the peak of favourable development started last year. **The recent turmoil on financial markets also had a negative impact.** Originating from problems on the American sub-prime mortgage market (i.e., mortgages for creditors with impaired credit histories), it led to an extraordinary overvaluation of risk on stock markets around the world.

Expected inflation and GDP growth in the EU

Country	Inflation (HICP yoy)			GDP yoy growth		
	2006	07 (EC)	07 (EB)	2006	07 (EC)	07 (EB)
Germany	1.8	2.1	1.9	2.9	2.4	2.6
Spain	3.6	2.5	3.4	3.9	3.7	3.3
France	1.9	1.4	1.8	2.0	1.9	2.2
Italy	2.2	1.9	2.2	1.9	1.9	2.0
Netherlands	1.7	1.7	1.9	3.0	2.5	3.0
Eurozone	2.2	2.0	2.0	2.8	2.5	2.6
Poland	1.3	2.4	n/a	6.1	6.5	n/a
UK	2.3	2.4	n/a	2.8	2.9	n/a
EU-27	2.3	2.2	n/a	3.0	2.8	n/a

Source: European Commission autumn forecast (EC), Erste Bank forecast (EB)

Overall however, the global economic situation remains quite positive and is **built on solid foundations**.

Estimates for 2007 inflation rates were adjusted upwards by 0.1 percentage points, specifically to 2.2% in the EU and 2.0% in the Eurozone. This increase is primarily the result of acceleration in consumer prices during the second quarter and the anticipated impact of an increase in world commodity prices that is expected by the end of the year. Nevertheless, higher labour productivity and a strong level of international price competition should contribute towards maintaining inflation at acceptable levels.

In the case of some countries, the European Commission's predications vary from the estimates made by the Erste Bank Group, of which Česká Spořitelna is also a member. They are however **comparable for the Eurozone** taken as a whole.

<http://www.europa.eu/rapid/pressReleasesAction.do?reference=IP/07/1295>

BUDGET

First Step for Reforming European Common Budget Accepted

The much-needed reform for the European Union's common budget is slowly gathering speed. The first step of the process, on which the European Parliament, European Council, and European Commission agreed in May 2006, and which includes a re-evaluation of all aspects of EU expenses and resources, consists of **starting a public consultation on the spending priorities** of a common budget. All interested parties from local, regional, national, and European levels can participate. The results of this consultation will be used as the foundation for the European Commission's review of the common budget, which is planned for the 2008-2009 timeframe.

As a parallel activity to this consultation, the Commission has already started a thorough **analysis of the Common Agricultural Policy**. Other significant Union policies will also be re-examined. In addition, the Commission has assigned external experts to perform a number of horizontal and branch studies that should be completed during spring 2008.

The document on the public consultation outlines the structure and the focus of the public consultation on budget reform and is based on the following key aspects and questions:

- Is the EU budget able to respond to changing needs in a sufficient manner?



- What criteria should be used to ensure that the principle of European added value is applied effectively?
- How should spending priorities properly reflect policy goals? What changes are needed?
- How can the budget be made more effective and efficient?
- Should transparency and accountability with regard to the budget area be strengthened even more?
- On what principles should the revenue side of the budget be based and how should these be translated in the own resources system?
- Does justification for maintaining corrective and compensatory mechanisms still exist?
- What should be the relationship between citizens, policy priorities and financing the EU budget?

The public **consultation is open through April 15, 2008.**

The actual structure of the EU common budget truly **does not correspond to the challenges of the twenty-first century.** Approximately two-fifths of all expenses go to agriculture and the fishing industry while budget resources allocated for Lisbon Strategy priorities make up only a little more than 8% of all expenses.

We can expect to see the first reformed EU budgets no earlier than the start of the next budget period, i.e., 2014.

<http://europa.eu/rapid/pressReleasesAction.do?reference=P/07/1302>

Czech Republic One of the Worst in Using EU Funds

European Budget Commissioner Dalia Grybauskaitė published the EU Budget 2006 Financial Report. Of EUR 106.6 billion distributed in 2006, more than **37% was spent on supporting cohesion and competitiveness for growth and employment** in all EU member states. Another 35% was allocated for direct aid and expenses connected with the agricultural market.

“This was globally a positive performance for new Member States, as all of them **received more money from the EU budget than in 2005.** Yet, they need to do better this year, especially in the cohesion policy”, emphasized Commissioner Grybauskaitė.

This pertained namely to the **Czech Republic**, which, from the perspective of using resources from the structural funds, is one of the second least successful states overall – **only Cyprus and Latvia were worse.** As of the end of 2005, for which date the data are available, Czech entities had managed to use only 46% of the approximately 40 billion

crowns that are available to the Czech Republic in EU structural funds.

We achieved slightly better results in using resources from the Cohesion Fund. Of the total 26 billion crowns that were allocated for 2004 through 2006, more than 30% was used, which places the Czech Republic amongst the **more successful half of the member states.**

Ratios payments/allocations in the programming period 2004-2006 as of September 2007

Country	Structural funds	Cohesion fund
Malta	69 %	49 %
Slovenia	68 %	28 %
Estonia	66 %	28 %
Hungary	66 %	23 %
Poland	57 %	16 %
Lithuania	56 %	28 %
Slovakia	55 %	32 %
CR	46 %	30 %
Latvia	45 %	32 %
Cyprus	41 %	40 %

Source: European Commission, ČTK

The results from the running date on the use of resources from EU funds cannot be overestimated. For one, the data as of the end of 2005 are truly outdated. For another, according to N+2 rules, we **will be able to publish the final account at the end of 2008.** Negative results during the interim strongly influence the system selected for back financing. In the large majority of cases the subsidies are actually not provided until after a project is completed with existing or borrowed resources, which acts as a guarantee against misuse of EU structural and Cohesion funds.

At the time of accession to the Union, it was already obvious that the relevant institutions would use the first programme period of 2004-2006 as more of a warm-up round in order to learn how to work with European subsidies. Their **experiences would then be fully applied during the 2007-2013 programme period**, during which we have approximately four times more resources available on an annual basis. Unfortunately, the situation as of the start of October doesn't seem to reflect this, as not one of the new operational programmes has been approved yet.

<http://europa.eu/rapid/pressReleasesAction.do?reference=P/07/1380>



Events

SMEs active in research and development in the EU can look forward to Eurostars – a new supportive community programme that has a budget of 400 million euros for the next six years. One of the European Union’s most significant steps of the recent past is undoubtedly the package for the liberalization of the energy market that was proposed in September. There is sure to be a tough battle amongst the member states in order to put it into practice.

INTERNAL MARKET

Further Regulation of EU Financial Services not on Daily Agenda

In reply to questions placed by the MEPs pertaining to the recent turbulence on the financial markets, ECB President Jean-Claude Trichet and EU Commissioners McCreevy and Almunia emphasized the need to improve the transparency of financial markets and the risk management rules in place at banks **rather than accepting additional regulatory standards for preventing similar crises in the future.**

Internal Market Commissioner Charlie McCreevy highlighted the fact that significant EU mechanisms in this area, such as **Basel II** (for banking), **MIFID** (for financial markets), and **Solvency II** (for insurance) have not yet been fully implemented into practice in all member states.

Commissioner McCreevy also **strongly criticized the ratings agencies**, saying “They were very slow, they had weak methodology, and there is a potential conflict of interest between providing an objective risk assessment and advising institutions on how to structure instruments.”

When one of the MEPs drew attention to the paradoxical situation of the ECB, which, on one side was injecting funds onto the financial market in order to simplify short-term financing, but on the other left the door open for a future increase in key rates, ECB President Trichet replied that the central bank’s primary goal of maintaining price stability must be kept separate from its **responsibility to ensure smooth operation of monetary markets.**

http://www.europarl.europa.eu/news/expert/infopress_page/042-10230-253-09-37-907-20070910IPR10214-10-09-2007-2007-false/default_en.htm

Commission Completes Business Insurance Sector Inquiry

The office headed by Commissioner Nellie Kroes, which is responsible for protecting competition in the EU, published the results of an **inquiry pertaining to insurance for business risks.**

The conclusions warn that some current practices in the business insurance sector **could limit competition** and result in disciplinary proceedings before the European Court of Justice. Specifically the following three areas are involved:

- Certain **practices aimed at the alignment of insurance premiums** in situations when coinsurance and reinsurance are negotiated on the basis of a two-phase process, with the participation of a lead insurer

(or reinsurer) and other insurers (or reinsurers), could lead to higher prices for business insurance and increased risk levels;

- There are symptoms of a possible **failure on the insurance intermediary market** – a lack of transparency in the manner in which insurance intermediaries are remunerated combined with a potential conflict of interests lead to higher prices and a more limited product offering, especially for small and medium-sized enterprises. The European Commission wants to resolve this problem through amendments to Directive No. 2002/92/EC, on insurance mediation; and
- There are cases in which the prevailing market practice of **long-term contracts could lead to restricted competition** – if clients are forced to conclude a long-term contract with the same insurer, this might impact competitors who are trying to enter the market or increase their market share.

The Commission also warns that **it might not renew the block exemption** in the area of business insurance entities, which exempts the insurance industry from certain protection of competition measures. This exemption came into effect in 2003 and expires in 2010. The European Commission will make a decision on whether or not to renew this exemption by 2009.

<http://europa.eu/rapid/pressReleasesAction.do?reference=P/07/1390>

ENTREPRISE

Eurostars: A New Community Programme for Small and Medium-sized Enterprises

European small and medium-sized enterprises (SMEs) that are involved in research and development will have the opportunity to benefit from a **new community programme titled “Eurostars”**. This is a joint programme of the European Commission and the twenty-seven states participating in the Eureka Initiative (which consists of twenty-two EU member states, including the Czech Republic, along with five other countries).

The programme budget for the first six-year period is in the amount of EUR 400 million. The Commission has allocated 100 million to the programme with the remaining 300 million coming from the other participating states. It is anticipated that these amounts will result in an additional EUR 400 million from private financing. Within the programme framework, the participating states will link their national research programmes designated for the SME sector, including the related financing. The programme **will be**



administered by the Eureka organization, which is headquartered in Brussels.

Small and medium-sized enterprises make up 99% of all European business entities and are a decisive factor for the success of the new Lisbon Strategy. The primary role is held by SMEs that are active in research and development. As a result of their size however, **these enterprises cannot invest sums into these high-expense activities** that match those invested by large enterprises. For this reason, the EU and its member states support programmes such as Eurostars.

This particular programme will primarily provide assistance to larger international projects that are coordinated by small and medium-sized enterprises (but will also be open to other entities, such as universities, research organizations, and even large companies), which are **focused exclusively on market-oriented research and development**.

The Ministry of Education, Youth, and Sports will be the coordinator for this community programme in the Czech Republic.

<http://europa.eu/rapid/pressReleasesAction.do?reference=P/05/1404>

TRANSPORT AND ENERGY

EU Preparing Ownership Unbundling for the Energy Sector

The European Commission's efforts to **establish a true unified European energy market** are one step closer to success. The goal of the proposed legislative package, which includes a number of liberalization measures, is to increase the competitiveness of the energy sector, ensure the safety of deliveries, strengthen the role of consumers, expand the choice of available suppliers, support the ecological production of energy, and increase the transparency of how prices are established, thus preventing disproportionately high prices for the end customers.

The primary liberalization measures for the energy sector include:

1. **Separating the production and supply of energy from the distribution network** ("unbundling") – the ownership of the network should be separate from the operation of the network. This pertains to separating the operation of the distribution networks for electricity and natural gas from production and supplying

activities. There are two ways in which this can be achieved:

- **separating ownership**, whereby one company cannot own a distribution network and also be an energy producer or supplier; or
- **creating an "independent network operator"**, whereby an energy producer or supplier can retain ownership of a network under the condition that it will be operated by an entirely independent entity.

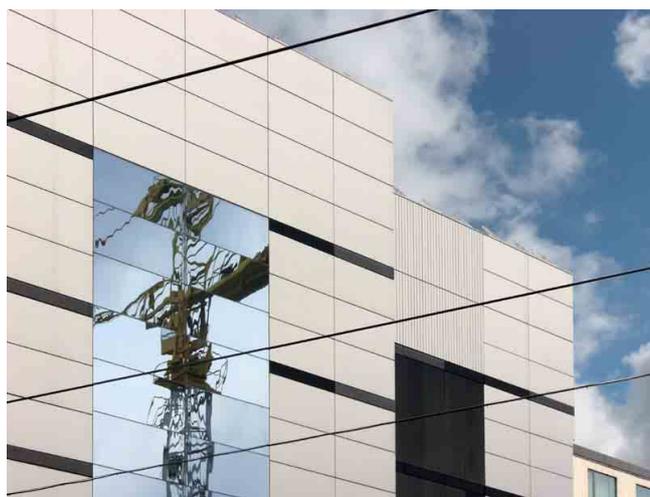
2. **Given the strategic significance of energy, the proposed package also includes safeguard measures** in the event that companies from third countries would want to acquire a significant share in networks currently owned by European producers or possibly even a desire to control them. Should this situation occur, they would have to provably and unambiguously meet the same requirements for separation as EU companies. The commission can intercede in the event that the purchaser is not able to prove its direct, or indirect, independence as pertains to the areas of supply and production.
3. **Facilitating cross-border trade** – the proposal recommends establishing an Agency for the Cooperation of National Energy Regulators (i.e., a European-wide regulator), which would have binding decision authority and would thus supplement the system of national regulating entities. This will ensure the proper processing of cross-border cases and allow a true European structure, functioning as one network, to develop.
4. **More efficient national regulators/measures** have been proposed that would strengthen and endure the independence of national regulating entities in the member states.
5. **Support for cross-border cooperation and investments** – within the new European network for operators of distribution systems, the distribution system operators from the individual EU member states would cooperate and develop joint business regulations, technical rules, and safety standards, and would also plan and coordinate investments.
6. **A higher level of transparency** – measures have been included to improve market transparency. As far as network operation and supplying are concerned, equal access to information will be established, the creation of prices will be more transparent, confidence in the market will strengthen, and market manipulation will be limited.



The “Third Railway Package” has been successfully passed during its third reading in European Parliament. Its goal is to contribute to the increased competitiveness of European railway systems. According to the Czech minister of agriculture, the national top-up amounts to direct payments received by agriculturalists next year will be several percentage points lower than the maximum threshold of 30 % allowed by the European Union.

7. **Strengthened solidarity** – the Commission foresees that, by bringing national markets closer together, the chances will increase that member states will mutually assist each other in the event of threats to the energy supply.

It is a fact that an internal energy market is still not functional within the EU and, in the majority of member states, **there is no true competition**. The measures presented by the European Commission, including the radical proposal for ownership unbundling, specifically the separation of energy distribution network operators from production activities, could help create this type of market. We consider the inclusion of safeguards against the control of energy sector entities by third countries, who might not always be considering only economic goals, to be an essential requirement.



The proposal from the desk of the European Commission most likely faces a **long struggle with uncertain results**. Before it can enter into force, it must be approved by the European Parliament and the member states. Some countries are focusing on building national megalomaniac champions rather than on breaking up local monopolies. In addition to France, Germany is also one of the more vocal opponents of the liberalization proposal.

<http://europa.eu/rapid/pressReleasesAction.do?reference=P/07/1361>

Rules for the Transport of Dangerous Goods in the EU to be Harmonized

At the start of September, the European Parliament approved a proposed directive that **updates and unifies all existing regulations for the transport of hazardous**

goods by rail, road, and inland waterways into one document. This harmonization will simplify multimode transport within the EU, speed-up the transport of dangerous goods, and ensure greater safety.

The total volume of dangerous goods transported in the Union on an annual basis amounts to approximately 110 billion tons, of which 58% are transported by road, 25% by rail, and 17% by inland waterways.

For historical reasons, the existing regulations pertaining to the transport of dangerous goods are significantly complex. The rules for individual types of transport **contain superfluous discrepancies** and some provisions are either already obsolete or will become so in the future. In addition, as of yet, no regulations have been implemented for the transport of dangerous goods on inland waterways.

According to the directive, member states will still have the ability to establish special safety regulations for the transport of dangerous goods that do not fall within the competence of the directive, primarily in relation to the transport of dangerous goods in passenger trains.

They will also be able to **prohibit the transport of dangerous goods within their individual territories**, but exclusively for reasons other than safety during transport.

The directive should definitely be approved at October's **Council of the European Union on transportation**. Given the pre-negotiated resolution, this should be merely a formality.

http://www.europarl.europa.eu/news/expert/infopress_page/062-9995-246-09-36-910-20070823IPR09758-03-09-2007-2007-false/default_en.htm

Liberalization of Rail Transport Nears

The “**Third Railway Package**” has been successfully passed during its third reading in European Parliament. Its goal is to contribute to the increased competitiveness of European railway systems.

This legislative package was first introduced by the European Commission in 2004 and it originally consisted of four legislative proposals. The MEPs did not approve the proposed regulation that would implement compensation for delays in cargo transport. **The package as approved includes three standards** pertaining to passenger rights, opening the rail market to competition, and European certification for train drivers.

1. Regulation on the rights and obligations of rail passengers

Starting in 2009, international and domestic rail passengers will have certain basic rights. Rail companies will be obligated to implement non-discriminatory rules for persons with reduced mobility, even at stations without service personnel, and to inform passengers of their rights.

In the event of delays, rail companies will have to compensate passengers an amount equal to 25% of the fare for a delay of 60 minutes or more and 50% of the fare for delays of 120 minutes or more under the condition that the operator is responsible for the delay.

The transport of baby carriages, wheelchairs, bicycles, and sports equipment is also within the competency of the regulation. Every train must have an **area designated for the transport of the aforementioned items**.

Member states will be able to grant an exemption for a period of no more than five years, which can be extended for two additional five-year periods (i.e., **for a total of fifteen years**). This exemption will apply to the implementation of certain obligations provided by this regulation within domestic personal rail services. In addition, the member states will be able to exclude municipal, suburban, and regional rail services from the implementation of these provisions.

2. Directive on the liberalization of international passenger rail services starting in 2010

Starting in January 2010, **international rail transport will be open to competition**. By no longer than two years after this directive enters into effect however, the European Commission must evaluate the situation and determine whether further liberalization should be considered for the future and if domestic transport should also be included.

3. Directive on a certificate for drivers operating engine cars and trains

Train drivers will have to be in possession of a **certificate proving that they have met minimum requirements** with respect to medical fitness, basic education, and general professional skills. Other crew members might be included in the directive in addition to train drivers. By no more than thirty months after the directive enters into effect, the Commission is obligated to submit an evaluation of train crew positions that perform safety-related tasks. It has been agreed that the European Railway Agency will prepare a report on the issues pertaining to these crew positions and will determine whether it would be

appropriate to implement a similar certification system for them.

All that is required for the new railway legislation to become valid is the approval of the ministers of transport from the member states.

http://www.europarl.europa.eu/news/expert/infopress_page/062-10639-267-09-39-910-20070823IPR09782-24-09-2007-2007-true/default_en.htm

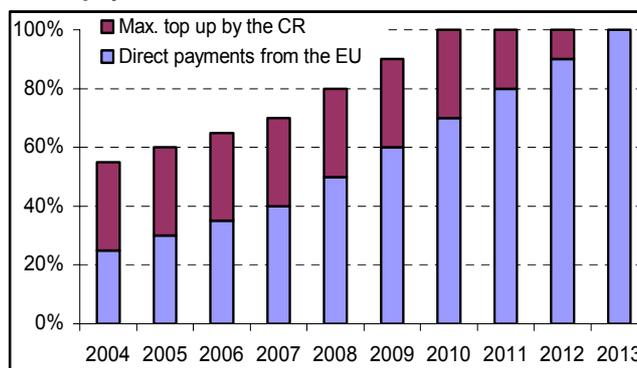
AGRICULTURE

Top-Up for Direct Payments Will Not Reach Maximum

According to the minister of agriculture, the **national top-up amounts to direct payments** received by agriculturalists next year will be several percentage points lower than the maximum threshold allowed by the European Union. The primary reason lies in the deletions made by the minister of finance at the time the national budget for 2007 was put together. According to the Czech News Agency, the minister made this announcement at the national seminar held by the Agricultural Union in Žďár nad Sázavou.

"I believe that it will still be possible to decrease this difference in some way. Nevertheless, we have to be prepared that the budget will not be in the same optimistic form as it was in 2007", Gandalovič told the Czech News Agency.

Direct payments to farmers in the CR



Source: Accession Treaty

The gradual implementation of direct payments was defined by the **"Accession Treaty"** at the time we entered the EU. According to it, direct payments to agriculturalists in the new member states (including the Czech Republic)



Events

A small harvest in Europe, a large demand worldwide, and high grain prices have forced the European Union to set aside its rule of obligatorily setting aside one-tenth of all agricultural land to lie fallow. The ministers of agriculture from the member states have approved reforms to the sugar industry, which will lead to further reductions in the production quotas for sugar.

will be implemented gradually over the course of the next ten years.

After accession in 2004, agriculturalists in the applicable countries receive 25% of the full amount of payments in the EU-15; the year after, 30%; and in 2006, 35%. Starting in 2007, at which time agriculturalists in the new member states start receiving 40% of the amount of direct payments in the EU-15, this percentage will be increased every year by ten percentage points until it reaches 100% in 2013. Over the entire period of the gradual implementation of direct payments, the new member states can increase the amount agriculturalists receive from their own resources up to an amount that is **30% higher than the value for the year in question** (refer to the graph). Total support cannot however exceed the 100% mark.

Minister Gandalovič stated that, as of this time, the top-up amount next year is expected to be 27%. Last year, it was the maximum 30%.

Obligatory Set-Aside Rate for Arable Land Discontinued

Due to a poor harvest and significant increases in grain prices, the European Commission has proposed that the percentage of arable land that has to obligatorily be set aside from sowing this autumn and in spring 2008 be **reduced from 10% to 0%**. As of now, this land is lying fallow. The proposal has already been approved by the EU Council on Agriculture. Export refunds on the export of grains from the EU to third countries have also been abolished.

The goal of these steps is to **increase European grain production**. The 2006 harvest, which was significantly lower than originally expected, has caused supply problems over the past several months and has led to historical increases in grain prices. Experts believe that due to the poor climatic conditions of this summer, the 2007 harvest will be even smaller than last year's.

At the current time, approximately 3.8 million hectares of agricultural land in the European Union are subject to being set aside obligatorily. According to the estimates made by the European Commission, decreasing the percentage of land that is set aside from being used down to zero will result in 1.6 to 2.9 million hectares of land being returned to production. Given average harvests, this would result in **approximately 10 million subsequent tons of grain**.

Czech farmers will not be affected by the measure, because, together with the other new member states, **they are exempt from setting aside land**.

The obligation to set aside one-tenth of land is **only one of a number of the absurd elements contained in the Common Agricultural Policy**. It is a positive sign that the European Commission and representatives from the member states have the will to abolish this requirement – albeit only temporarily and due to external circumstances.

<http://www.europa.eu/rapid/pressReleasesAction.do?reference=IP/07/1329>

EU Ministers of Agriculture Approve Reforms to the Sugar Industry

The ministers of agriculture from the individual EU member states approved changes that will restructure the sugar production industry and make it more efficient. This will **reduce sugar production in the European Union** to a maintainable level. The goal for the entire EU is to decrease sugar quotas by six million tons by 2010 and thus fulfil its obligations towards the World Trade Organization.

The restructuring scheme was the primary element in the 2006 reform of the Common Market Organization for sugar, within the framework of which producers receive financial motivation for leaving the sector. During the first two years it has been in effect however, **sugar producers renounced a much smaller volume of the quotas** than was anticipated and thus it became necessary to revise the scheme. For the 2008-09 financial period, growers will receive a subsequent payment of EUR 237.5 for each ton of quota renounced.

Further **decreases in the quota will not be area wide**, something that would significantly damage Czech producers who already radically decreased sugar production in the past. This does not however mean that the quotas for the Czech Republic will not be decreased at all. They will however be decreased by approximately 40% less than is the case in member states who have not yet restructured this sector in any way. Another new feature of the revised scheme is the fact that decreases to the quotas can also be initiated on the part of sugar beet growers, not only by processors.

<http://www.europa.eu/rapid/pressReleasesAction.do?reference=IP/07/1401>

JUSTICE AND HOME AFFAIRS

Banks to Become Involved in the Battle against Counterfeit Euros

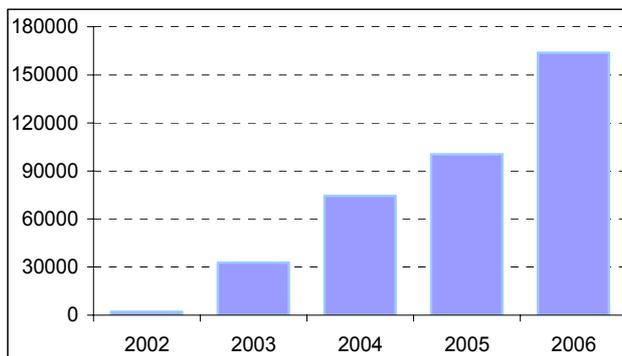
The European Commission has proposed measures intended to strengthen the level of protection against counterfeit euro banknotes and coins. The proposal is based on **requesting banks and other similar institutions to verify the authenticity of euro banknotes and coins** prior to placing them back in circulation.

European Commissioner Siim Kallas, who heads the anti-fraud division, said, "Euro counterfeiting remains a considerable illegal activity, but our report clearly shows that the system for the protection of Euro coins is working efficiently. However, we also propose improving existing legislation: To enhance trust in money used, the Commission proposes that professional money handlers should be obliged to verify the authenticity of money they circulate."

At the same time, the European executive branch published a report praising the member states for **harmonizing the criminal sanctions against euro banknote and coin counterfeiters** in the EU.

Based on last year's annual report, over the course of 2006 almost **164,000 counterfeit euro coins were removed from circulation**, of which the majority were two-euro coins. The total value of euro coins in circulation is 69 billion euros.

Counterfeit euro coins detected in circulation



Source: European Anti-Fraud Office - OLAF

In the interest of strengthening the credibility of euro coins, the Commission recommends increasing the level of cooperation between national law enforcement authorities and Europol.

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/07/1353>

REGIONAL POLICY

Ministry for Regional Development Confirms that Calls for Submitting Grant Applications Can Be Announced

A meeting of bodies active in the implementation structure of the National Strategic Reference Framework (NSRF) confirmed that financial resources from EU structural funds can start to be used prior to the time that negotiations on operational programmes are concluded with the European Commission. Meeting participants included representatives from the Ministry for Regional Development, the Ministry of Finance, and the operational programme managing authorities.

Each managing authority has the right to announce a call for applications as well as issue a decision on the provisions of a grant immediately in accordance with the legislation of the Czech Republic as well as with that of the European Union. **It is generally not necessary to wait until approval for the relevant operational programme is obtained from the European Commission.**

According to the main Czech coordinator for the Ministry of Regional Development's economic and social cohesion policy, it is up to the applicable managing authority to **consider the risks it faces from the unfinished negotiations on operational programmes** with the European Commission.

The risk lies in the fact that, if an operational programme is not approved by the Commission, resources for the selected and financed programmes will not be released from the structural funds. On the other hand, too long of a delay in announcing the call for applications presents the danger that, in the event that a sufficient number of projects are not approved and started this year, a portion of the structural assistance allocated for this year will not be used.

Thus far, calls for submitting grant applications to receive subsidies for EU funds have been announced for the following operational programmes (OP) and regional operational programmes (ROP):

- OP Industry and Innovation
- OP Transport
- OP Environment
- ROP Central Moravia
- ROP Moravia-Silesia
- ROP Northeast
- ROP Southeast



The Ministry for Regional Development confirmed that the managing authorities for individual operational programmes can announce calls for the submission of applications for grants, even though the relevant operational programme has not yet been approved by the European Commission. Efforts to decrease the number of victims of traffic accidents in Europe have led the European Commission to submit a plan for implementing intelligent systems in automobiles.

- ROP Southwest
- ROP Central Bohemia

According to information from the European Commission, the first operational programmes might be approved in October. These would consist of the following OPs financed from the European Social Fund:

- **OP Education for Competitiveness**
- **OP Human Resources and Employment**
- **OP Prague – Adaptability.**

A sufficient level of communication with the public and those completing projects is closely linked to the issues pertaining to the use of resources from the structural funds and the Cohesion Fund.

There should be an improvement to communications with the implementation of a **Common Information System for the public and public administration authorities** that will be used for news on the opportunities that have been approved by the government for using European funds. This system is operational at three basic levels:

- **National level** – the communications plan for OP Technical Assistance for the 2007-2013 timeframe at the NSRF administration level;
- **Operational Programme level** – the communications plans for individual OPs; and
- **The coordination of all communications activities**, which is performed by the task force for EU fund information and publicity.

<http://www.mmr.cz/index.php?show=001021718>

<http://www.mmr.cz/index.php?show=001021720>

HEALTH AND CONSUMER PROTECTION

EU Wants to Introduce Intelligent Automobiles

In an effort to **decrease the number of victims of traffic accidents in the EU**, the European Commission submitted new plans for the faster implementation of safer, cleaner, and smarter automobiles. In relation to this, at the end of this year the Commission will start negotiations with European and Asian automobile manufacturers with the goal of reaching an agreement on the implementation of an automatic European-wide in-vehicle emergency call system (“**e-Call**”) as a standard accessory in all new vehicles starting

in 2010. Brussels will concurrently support the introduction of other lifesaving technologies and will investigate the manner in which new technologies can

contribute towards making vehicles more environment-friendly and smarter.

In order to improve safety, the Commission’s document supports the implementation of the following for the purposes of avoiding accidents:

- The Commission calls on member states that have not yet signed the **Memorandum of Understanding on the e-Call system**, which is based on the pan-European 112 emergency calling system, to do so by the end of 2007. If a sufficient number of member states do not sign this memorandum by 2008, the Commission plans to institute regulatory measures for the following year;
- At the end of the year, the Commission will discuss the possibility of speeding up **accessibility to Electronic Stability Control (ESC)** for small and mid-size automobiles; and
- Before the end of this year, the Commission will hold consultation on whether **built-in braking and sensor systems** that warn drivers of an approaching accident half-a-second beforehand should be mandatory for all automobiles.

By mid-2008 the Commission will also prepare guidelines on incentives for smarter automobile systems, such as tax breaks for individual member states. With the goal of achieving more ecological road transport, the Commission will present a proposal for the **implementation of technologies for decreasing CO2 emissions**, which will apply both to vehicles as well as to the overall infrastructure.

<http://europa.eu/rapid/pressReleasesAction.do?reference=P/07/1342>





Diary

The European Parliament voiced its support for the Commission's efforts to reduce and simplify EU legislation. Its excessive complexity represents an administrative burden on the administrative sphere and does not contribute to citizens in general. An analysis proves that the least taxed labour is enjoyed by employees in Cyprus, whereas Belgian employees face the highest taxes. The Czech Republic is an average European country in this respect.

3 SEPTEMBER

Quota cuts needed in most Baltic Sea fisheries in 2008:
http://ec.europa.eu/fisheries/press_corner/press_releases/com07_57_en.htm

Pharmaceutical pricing and reimbursement:
http://ec.europa.eu/health/ph_information/dissemination/hsis/hsis_17_en.htm

4 SEPTEMBER

MEPs debate clearer, simpler EU laws:
http://www.europarl.europa.eu/news/public/story_page/008-122-324-11-47-901-20061121STO00121-2006-20-11-2006/default_en.htm

Euro-area GDP growth projection:
http://ec.europa.eu/economy_finance/indicators/euroareagd_p_en.htm

5 SEPTEMBER

Dangerous goods - call for single pan-European directive:
http://www.europarl.europa.eu/news/public/story_page/062-9920-246-09-36-910-20070830STO09906-2007-03-09-2007/default_en.htm

6 SEPTEMBER

Committee of the Regions supports strengthening of European Neighbourhood Policy:
http://www.cor.europa.eu/en/press/press_07_09099.html

7 SEPTEMBER

Evaluation of the economic evaluation activities of the Directorate-General for Economic and Financial Affairs:
http://ec.europa.eu/economy_finance/about/evaluation/evaluation_ecfin_en.htm

10 SEPTEMBER

Joint Harmonised EU Programme of Business and Consumer Surveys:
http://ec.europa.eu/economy_finance/publications/european_economy/2006/eespecialreport0506_en.htm

Commission proposes actions to foster 21st Century e-Skills:
http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?item_id=952

11 SEPTEMBER

Euro-pol: Seizure of eight tonnes stolen banknote paper:
<http://www.europol.europa.eu/index.asp?page=news&news=pr070910.htm>

Physical education should be compulsory in schools, says Culture and Education Committee:
http://www.europarl.europa.eu/news/expert/infopress_page/038-10227-253-09-37-906-20070910IPR10200-10-09-2007-2007-false/default_en.htm

12 SEPTEMBER

Update of the list of airlines banned within the EU:
http://ec.europa.eu/transport/air-ban/list_cs.htm

Environment: "Protection of the ozone layer" - new website from DG Environment:
<http://ec.europa.eu/environment/ozone/index.htm>

Commission and Serbia complete negotiations on stabilisation and association agreement:
http://ec.europa.eu/enlargement/enlargement_process/association_process/how_does_a_country_join_the_eu/sap/history_en.htm#sap_agreement

13 SEPTEMBER

Regional Policy: Commission adopts new communication on Outermost Regions:
http://ec.europa.eu/regional_policy/sources/docoffic/official/communic/comm_en.htm

Cap cars' CO2 emissions at 120g/km, says Environment Committee:
http://www.europarl.europa.eu/news/expert/infopress_page/064-10234-254-09-37-911-20070910IPR10218-11-09-2007-2007-false/default_en.htm

14 SEPTEMBER

European Commission is world's largest public investor in nanotechnology:
<http://ec.europa.eu/research/index.cfm?pg=newsalert&lg=en&year=2007&na=na-130907>

Cohesion policy 2007-2013: Commission approves jobs and growth-led strategy and priorities for Finland:
http://ec.europa.eu/employment_social/emplweb/news/news_en.cfm?id=287

17 SEPTEMBER

Recall of Chinese toys - MEPs voice concerns:
http://www.europarl.europa.eu/news/public/story_page/063-10176-255-09-37-911-20070906STO10167-2007-12-09-2007/default_en.htm

EU-Ukraine Summit - Kiev:
http://www.consilium.europa.eu/cms3_applications/applications/newsroom/LoadDocument.asp?directory=en/er/&filename=95956.pdf

Labour market and wage developments in 2006:

http://ec.europa.eu/economy_finance/publications/european_economy/labour_mkt_wage2007_en.htm

Total tax wedge on labour in 2006

Cyprus *	19,0	CR	42,6
Ireland	23,1	Romania *	43,0
Malta *	24,2	Poland	43,7
UK	33,9	Finland	44,1
Portugal	36,3	Netherlands	44,4
Luxembourg	36,5	Lithuania *	44,4
Slovakia	38,5	EU-27 *	44,7
Greece *	38,8	Italy	45,2
Bulgaria *	38,9	Sweden	47,9
Spain	39,1	Austria	48,1
Denmark	41,3	France	50,2
Estonia *	41,6	Hungary	51,0
Latvia *	42,2	Germany	52,5
Slovenia *	42,4	Belgium	55,4

Source: European Commission, for single person without children with an average wage, *) in 2005

18 SEPTEMBER

Reform Treaty MEPs push for inclusion of Charter and citizenship: http://www.europarl.europa.eu/news/public_story_page/002-10379-260-09-38-901-20070913STO10363-2007-17-09-2007/default_en.htm

19 SEPTEMBER

2818th Justice and Home Affairs Council meeting: http://www.consilium.europa.eu/cms3_applications/applications/newsroom/LoadDocument.asp?directory=en/jha/&filena me=95982.pdf

20 SEPTEMBER

MEPs want clearer rules on international divorce: http://www.europarl.europa.eu/news/public_story_page/016-10384-267-09-39-902-20070913STO10370-2007-24-09-2007/default_en.htm

New Animal Health Strategy (2007-2013): http://ec.europa.eu/food/animal/diseases/strategy/index_en.htm

21 SEPTEMBER

Employment MEPs use hearing to debate minimum wage: http://www.europarl.europa.eu/news/public_story_page/008-10387-260-09-38-901-20070913STO10373-2007-17-09-2007/default_en.htm

Commission publishes latest agricultural trade statistics:

http://ec.europa.eu/agriculture/agrista/tradestats/2006/index_en.htm

24 SEPTEMBER

EESC to adopt recommendations on energy efficiency, carbon capture, biofuels and greenhouse gas emissions: <http://eesc.europa.eu/activities/press/cp/docs/2007/communique-presse-eesc-085-2007-en.doc>

25 SEPTEMBER

Employment and Social Affairs: Europe wide job fair opens its doors: http://ec.europa.eu/employment_social/emplweb/news/news_en.cfm?id=289

26 SEPTEMBER

Parliament adopts an own-initiative report on a roadmap for renewable energy in Europe: http://www.europarl.europa.eu/news/expert/infopress_page/051-10638-267-09-39-909-20070823IPR09781-24-09-2007-2007-false/default_en.htm

Report on the implementation of the Action Plan "Promoting language learning and linguistic diversity 2004-2006": http://ec.europa.eu/education/policies/lang/policy/report_en.html

27 SEPTEMBER

Parliament adopts priorities on legal and illegal immigration policies: http://www.europarl.europa.eu/news/expert/infopress_page/018-10644-267-09-39-902-20070823IPR09787-24-09-2007-2007-false/default_en.htm

MEPs demand that toys meet EU standards: http://www.europarl.europa.eu/news/expert/infopress_page/063-10648-267-09-39-911-20070823IPR09791-24-09-2007-2007-true/default_en.htm

2819th Agriculture and Fishing Council meeting: http://www.consilium.europa.eu/cms3_applications/applications/newsroom/loadDocument.ASP?cmsID=221&LANG=en&directory=fr/agricult/&fileName=96096.pdf

28 SEPTEMBER

Commission opens infringement procedures against 7 Member States: http://ec.europa.eu/fisheries/press_corner/press_releases/com07_62_en.htm



At the end of January, the European executive branch published the results of its investigation into retail banking. It found that competitiveness within the services offered to small customers is not sufficient. One of the mentioned causes of this situation consists of the large obstacles in the way of bank customer mobility, especially when it comes to changes in current accounts.

COMMISSION WANTS TO IMPROVE BANK CUSTOMER MOBILITY

In order to improve the mobility of bank customers, the European executive branch initiated the creation of an **expert group**, which will identify the existing obstacles that prevent customers from changing bank accounts more often and make recommendations on how to improve the situation. The group, consisting of nineteen experts from the banking and academic spheres along with representatives from consumer protection organizations identified four areas where barriers exist:

- information asymmetry and non-transparent pricing;
- product bundling and tying;
- administrative burden; and
- closing charges.

They made a total of **thirty-seven recommendations**, which are not legally binding. The Commission will however review them and, after performing an assessment, will attempt to put some of them into practice.

Lack of information decreases customer mobility...

The expert group considers information asymmetry and non-transparent pricing to be one of the reasons behind low bank customer mobility. A number of customers do not have sufficient education in relation to finance and the requisite abilities to be capable of navigating the various types of fees and identifying the benefits of different banking services. As a result, customers **do not actively search for the best offer** and, if they are more-or-less satisfied, remain with their current bank.

The issue of insufficient information will be partially resolved by a **new directive on payment services on the internal market**. This directive will require providers of payment services to furnish customers with all the relevant information and conditions pertaining to a service sufficiently in advance, either on paper or by using some other permanent media.

...as well as their disinterest

In addition to a low level of financial literacy, another fundamental reason lies in **customer disinterest**. Rather than carefully studying the conditions offered by individual banks, customers open their accounts at institutions either on the basis of a good reputation or the closeness of a branch. Customer disinterest is reflected in the low level of knowledge they have about the fees they pay.

This can be explained by the fact that households **pay a relatively small amount for banking fees** and thus it is not of value for them to study bank price lists in detail and look for the best offers. Based on statistics on family bank accounts in the Czech Republic, expenses for bank services are less than 0.6% of total expenses for consumption.

Resolving the problem of information asymmetry lies primarily in **improving the education system**. The expert panel thus recommends including "Finance" as a school subject. One new requirement that is being considered is an annual statement summarizing all the fees and interest paid by a customer that a bank would have to send to its customers every year.

Will product bundling be prohibited?

Another obstacle identified as preventing customers from changing banks more often is product bundling and tying. These practices are popular, as combining multiple products in one bundle represents **decreased transaction and distribution fees** and it is possible to offer customers lower fees than if each product contained in the bundle were to be acquired separately.

On the other hand, bundles can limit competition, as they reduce the comparability of prices and **discourage customers from switching banks**. If a customer has an entire package of products from one bank, they will most likely not take advantage of a better offer by the competition for just one product. The situation is comparable in the case of product tying, when obtaining one ideal product is conditional on the purchase of others.

Definition of product bundling and product tying

Product tying occurs when two or more products are sold together in a package and at least one of those products is not sold separately. Product tying thus sometimes coerces customers into purchasing additional products that might not be needed.

Product bundling is when two or more banking products are sold together in a package. These products might only be available in a bundle (pure bundling) or on their own, but they are cheaper when purchased as part of a package as compared to purchasing them separately (mixed bundling).

Source: European Commission Definitions

One of the expert group's recommendations for increasing customer mobility is to **prohibit product tying and pure bundling**. Banks would thus have to offer all tied or bundled products on an individual basis as well.



Analysis

As far as mixed bundling is concerned, the expert group requires the **provision of more information**, specifically that customers be informed about the prices of the included products in the event that they are acquired independently.

Administrative demands are an obstacle

A change to a current account is often a complicated transaction consisting of filling out forms for closing the old account and opening a new one, transferring remaining balances, re-establishing automatic debits and permanent payment orders, and informing everyone that has a financial relationship with the customer. These procedures, which are very demanding from the perspective of both time and cost, **discourage a large number of customers** and they prefer to stay with their original bank.

In some states, special **plans for small customers** have been implemented in order to simplify the process of switching bank accounts from one bank to another. These plans exist in two forms:

- **Switching services** – a series of steps taken by both the original bank as well as the new bank that will perform the switch of the account and all related payment operations for the customer. Within the European Union, this type of system is in place in Great Britain, the Netherlands, Italy, and Ireland; and
- **Switching guides** – handbooks that describe the individual steps a customer must take in order to switch a bank account and all related payment operations.

The experts recommend the **mandatory implementation of assistance plans**. These could be in the form of instructions for switching accounts, switching services, or a combination of both. Opinions were divided as to whether these should be at a national or European-wide level.

Account number portability is not a solution

A more radical measure is to implement **account number portability**. A customer could open a new account at a different bank but retain the original account number. The customer would not have to inform business partners of the new account number, would not have to change any automatic debits, and would not have to re-establish any payment orders.

Even at first glance this tempting idea has a number of limitations and obstacles that **make the implementation of this system unfeasible at the current time**. Account number portability throughout the entire EU would require a uniform account number structure. At this point in time and as far as the entire EU is concerned, this condition is met

only by the standards for International Bank Account Numbers (IBAN) and Bank Identifier Codes (BIC).

IBAN and BIC are not ideal

The IBAN and BIC standards are **not appropriate** for this purpose. They include identification of the bank and the applicable country. This would lose its purpose as far as account number portability is concerned and would lead to confusion and mistakes. In addition, IBAN and BIC standards are used by a total of thirty-six countries, not just by the EU member states, and they would all have to agree to any changes. Establishing a new standard for European account numbering is also not a feasible alternative for the near future. It would result in very high subsequent expenses for banks, which would then be reflected in pricing structures for their customers.

Even if numbers could be retained when switching an account from one bank to another, the **customer would not be relieved of tasks**, as a number of banking products (payment cards, overdraft credit, etc.), are tied to a specific account. If an account is closed and opened at another bank, these related services would have to be terminated and re-established.

Account number portability is a **project for the future**. It will become more realistic within the framework of the future possible revisions of IBAN and BIC standards only after SEPA is successfully implemented.

Account closing fees discourage changes

Account closing fees might be a factor that is considered by customers who are considering closing an account and switching over to the competition. These fees do not however exist in the majority of EU countries. Even in the Czech Republic, the largest banks **no longer charge them**.

This situation is partially harmonized by the new directive on payment services, according to which the termination of a contractual relationship that is concluded for a period of at least twelve months or for an indefinite period of time **cannot require the payment of any fees**. The expert group recommends that account closing fees cannot be charged even for short-term contracts of under one year.

Further analysis is required

Inflexibility, stagnation, and zero customer mobility do not make any long-term contributions to a market environment. The recommendations made by the expert group provide a **good foundation for further discussion**. Prior to submitting a legislative proposal however, the Commission should submit all of the recommendations to a critical analysis of the related costs and benefits in order to ensure that the end result is not actually the opposite.



Most likely October's most important assembly of Europe's leaders is the Lisbon meeting that will take place within the framework of an intergovernmental conference. The main topic of this gathering of the highest representatives from the individual EU member states is the finalization of the Reform Treaty, which is to replace the rejected Constitution.

Meeting of the key EU institutions

1.-2.10.2007	Luxembourg, Luxembourg
- Transports, Telecommunications and Energy Council	
1.-2.10.2007	Lisboa, Portugal
- Informal Meeting of Justice and Home Affairs Ministers	
4.10.2007	Lisboa, Portugal
- Formal Meeting of Ministers for Gender Equality	
8.-9.10.2007	Luxembourg, Luxembourg
- ECOFIN Council	
15.-16.10.2007	Luxembourg, Luxembourg
- General Affairs and External Relations Council	
18.-19.10.2007	Lisboa, Portugal
- Informal Meeting of Heads of State and Government	
22.-23.10.2007	Luxembourg, Luxembourg
- Agriculture and Fisheries Council	
25.10.2007	Lisboa, Portugal
- Informal Meeting of Ministers for Sports	
30.10.2007	Luxembourg, Luxembourg
- Environment Council	

Public consultation on EU legislation

Topic of the consultation	Organiser	Deadline
New Regulation on Advanced Safety Features and Tyres	MZ CR	15.9.2007
Possible European Private Company Statute	DG ENTR	21.9.2007
Europe's Social Reality	DG ENTR	23.9.2007
Green Paper "Towards a new culture for urban mobility"	DG MARKT	30.9.2007
The budget review in the written press	DG ENTR	12.10.2007



Main topic

Small and medium-sized enterprises are the backbone of the European economy and share in its growth and the creation of employment opportunities in a decisive manner. This month, we are focusing on their role in the market economy from the perspective of their internationalization. Overcoming the task of converting from a local orientation to a more significant cross-border focus is usually the breaking point for small and medium-sized entrepreneurs who were successful up until that point.

SMALL AND MEDIUM-SIZED ENTERPRISES AND THEIR INTERNATIONALIZATION: CURRENT TRENDS IN THE EU

The small and medium-sized enterprise sector has been traditionally viewed primarily as a factor for prosperity and stability within the immediate area of each individual enterprise's domicile.

For a long period of time, small and medium-sized enterprises have relied on typical, regional economic activities, used local human resources and other local production factors and their products, and, at a later date, even services were primarily focused on satisfying home-based – local and regional – demands.

Over the course of decades and centuries, the small and medium-sized enterprise sector became a symbol of local and regional stability and prosperity, especially in countries where it developed qualitatively and quantitatively (e.g., in the German-speaking countries), and subsequently the backbone for the development of the entire economy.

It was not until the change in economic structure from a processing industry and agriculture towards a service-providing structure that the small and medium-sized enterprise sector gradually started opening beyond the framework of traditional localities and regions. During approximately the past two decades, small and medium-sized enterprises have been striving to focus on new areas of activities within very specialized segments of the processing industry and services.

Opening up new space for the activities performed by small and medium-sized enterprises is obvious not only within the framework of a single national economy, but, especially in the case of smaller economies, even across national borders. In addition, this new dimension of the expansion of small and medium-sized enterprises is visible within the reforming economies of Central and Eastern Europe.

The definition of small and medium-sized enterprises

category	headcount	turnover	or	balance sheet
medium	< 250	≤ € 50 mil.		≤ € 43 mil.
small	< 50	≤ € 10 mil.		≤ € 10 mil.
micro	< 10	≤ € 2 mil.		≤ € 2 mil.

Source: Commission's Recommendation 2003/361/EC

AREAS OF THE INTERNATIONALIZATION OF SMES?

1. Influx of foreign investments

in areas connected with the influx of foreign investments (in the given scope, most likely specifically within the Central and Eastern European region): Direct foreign investors that enter the Central and Eastern European markets take broad advantage of small and medium-sized enterprises as significant, specialized local partners – the incentive policies in place for large direct investors thus also indirectly affects small and medium-sized enterprises;

2. Import

Some small and medium-sized enterprises have already stopped using predominantly local resources and, within the framework of their “new activities”, have started to focus – in a fairly significant manner – on the import of commodities, equipment, and other goods that ensure the smooth operations of their economic activities. (As an extremely illustrative example, consider the focus of small and medium-sized enterprises in the travel industry: for the purposes of furnishing and equipping hotels, pensions, conference centres, educational facilities, and athletic centres, their operators import items such as computers and information networks, electronic equipment, the requisite software, etc.);

3. Export

Over the past years, a number of small and medium-sized enterprises have overcome the borders of solely locally and regionally marketed production, started narrowly specializing in a specific product or service, and have subsequently become significant – even dominant – exporters. Within individual EU member states, the share of direct exports held by small and medium-sized enterprises ranges between twenty and fifty percent; nevertheless, the export activities of small and medium-sized enterprises are also significantly influenced by strategic deliveries for the export-oriented production of large corporations and direct foreign investors. Without specialized sub-deliveries, these export activities could never have started. In addition, the focus of small and medium-sized enterprises on tourism and consulting services has also become more internationalized;

4. Marketing

Small and medium-sized enterprises strive to ensure that a certain portion of the demand for their products and services originates with foreign entities. It is obvious that, for the purpose of efficient and effective information on foreign markets, active implementation of marketing campaigns on the relevant markets and during appropriate events (trade fairs, exhibits, conferences, targeted media promotions, etc.) is required;

5. Creating a network of partnerships and productive cooperation (networking)

National borders in this area have also been “torn down” at the level of small and medium-sized enterprises, as they gradually create internationally conceived platforms of mutual cooperation at the cluster level. Even from the perspective of a cross-border approach, groupings are being established in which even companies that are otherwise considered to be mutual competitors are finding possibilities for cooperation and a common approach (joint marketing, common visibility for an entire segment or area, joint promotions for a type of product or service, etc.);

6. Subsidies from international financial resources

The most classic example of this form of internationalization is the ability of small and medium-sized enterprises to access financial resources from the EU. During this programme period, the small and medium-sized enterprises, especially in Central and Eastern Europe, have a unique and hard-to-repeat opportunity to use EU funds within the framework of structuring operations.

At the same time, direct EU community grants (primarily within the framework of the seventh framework programme CIP – the framework programme for supporting competitiveness and innovation) are specifically available for international cooperation projects between entrepreneurial entities. Other business tools for expanding the business activities of the European Investment Bank are also available, namely those provided within the framework of JEREMIE (Joint European Resources for Micro to Medium Enterprises);

7. Private-public partnership (PPP) sector

This is thus experimental within all areas of its gradual implementation. Its merits have truly not yet been recognized at the current level of its expansion within the small and medium-sized enterprise sector, especially

from a cross-border perspective. Its benefits can however be perceived at local and regional levels with cross-border aspects (e.g., the joint redevelopment of the tourism industry: downhill ski areas, cross-country ski trails, bicycle paths, etc. – which cross the borders of multiple states).

8. Financial Partnership

A possible inspiration for the international expansion of small and medium-sized enterprises is the creation of financial partnership instruments, which can take on a number of forms. The starting point can be seen in the relationship that is established when a small or medium-sized enterprise in one country obtains external financing resources from a bank, non-bank institution, or private investors in another country (or countries).

The examples provided by some of the Alpine countries or the members of Benelux and other similar alliances specify the establishment of specialized funds in which private investors, public institutions, and cross-border entities all participate and which are subsequently professionally administered. The ensuing earnings are used for the focused development of small and medium-sized enterprises in the applicable regional area.

BASIC TRENDS IN THE INTERNATIONALIZATION OF SMES

If we want to briefly generalize with regard to the basic trends in the internationalization of small and medium-sized enterprises, we should consider the following to be of primary importance:

- in the traditional development segments of small and medium-sized enterprises (small trade production, local services, sales, agriculture, forestry, and fishing), the level of internationalization ranges from zero to very low;
- the scope of the internationalization of small and medium-sized enterprises is logically reflected in tradable goods and especially in the area of services, to which a portion of the capacities of small and medium-sized enterprises has gradually moved over the course of the past two decades; and
- over the next phases, through the business relationships established on the basis of goods and services, the international dimension has expanded in the area of investments, financial flows, cooperation and partnership networks, and productive cooperation. During the most recent and current period, private and



public partnership platforms have been established with the participation of small and medium-sized enterprises.

MAIN OBSTACLES AND OPPORTUNITIES FOR THE INTERNALIZATION OF SMES

Within the framework of their internationalization, significant opportunities are opening up for small and medium-sized enterprises and, at the same time, it is possible to identify a number of obstacles. The primary opportunities lie in the development of tradable commodities, which, on the one hand, are of sufficient quality and high specialization (in the case of both the production of goods as well as the provision of services) and also correspond to the capacities of small and medium-sized companies.



Significant potential exists especially in the countries of Central and Eastern Europe in the form of acting as key supplier of sub-deliveries for strong foreign investors who are entering these countries at a rapid rate. In addition to product specialization, another important positive characteristic of small and medium-sized enterprises that operate at an international level is their strategy of an individualized approach to customers (as

compared to the mass nature of products provided by large companies).

The key obstacles to the larger scale internationalization of small and medium-sized enterprises do not ensue from their production processes (product manufactures and service providers are generally qualified and experienced specialists), but rather in auxiliary activities, which are however required to ensure final competitiveness:

- sales and distribution channels,
- marketing,
- high-quality and transparent access to information,
- access to available financial resources,
- the ability to navigate through important trends and markets abroad,
- the ability to lobby and promote opinions,
- the possibility of sharing a portion of capacity with competitors in the form of segment cooperation and clusters.

Although small and medium-sized enterprises are the primary source of economic growth and the systematic creation of new employment positions, their participation in international economic relationships is relatively less frequent in relation to the benefits they bring, which are reflected in national, and especially regional and local, economies.

A number of documents bring attention to the fact that this low frequency of participation is, on the one hand, the result of the natural, historically dominant ties of small and medium-sized enterprises to a specific locality and region, as well as limited capacity options for international expansion, but, on the other, there are also existing, resolvable barriers (tariff and non-tariff related) that act as obstacles to the incorporation of small and medium-sized enterprises on international markets. As a reaction to these barriers, almost all economies are currently using a system of supporting services and programmes that are designed specifically to assist small and medium-sized enterprises with overcoming the ensuing obstacles.

At the level of the European Commission's analytical office, a representative sample of small and medium-sized enterprises was requested to identify the ten major obstacles that most limit their capability to enter international markets. The enterprises included in this sample all primarily emphasized the company's internal abilities.

Luxembourg most definitely tops the list of EU countries that have the most internationally active small and medium-sized enterprises in the area of import and export activities. Almost 80% of this country's small and medium-sized companies are active in foreign trade, primarily exports. There is quite a significant gap between Luxembourg and the second country on the list – Ireland. The latter country's small and medium-sized enterprises are active in foreign trade at a level that exceeds 60%. There is then a group of countries that participates at a rate that ranges between 40% and 50% (specifically in the order of Austria, Belgium, and Greece).

Another large group holds a share of 30% to 40% (the Netherlands, Spain, Germany, Sweden, and Denmark). All the new member states that acceded to the Union between 2004 and 2007 fall into the 20% to 30% category, as do all of the remaining EU-15 countries, with the exception of Great Britain, France, and Finland. Their small and medium-sized companies are the least represented in foreign trade activities, whereby their share is around 20% or even lower.

It is also important to differentiate between internationally active small and medium-sized enterprises on the basis of their size. Amongst micro-companies, only 17% participate in import and export activities. This share increases to 38% for small companies and up to 51% for medium-sized enterprises.

On the other hand, we cannot fall victim to the illusion that all of the production of these internationally active participants is exported or that all of their inputs are imported. The intensity at which they are internationally active (e.g., as measured by the ratio of exports to total sales) increases proportionately to their size. As far as the smallest companies are concerned, the volume of exports on the part of internationally active enterprises is less than 10% of their total sales. When it comes to larger companies, there are a sufficient number of medium-sized enterprises that report over one-half of their total sales generated through exports.

POSSIBLE CATEGORIZATION OF SMES FROM THE PERSPECTIVE OF INTERNATIONALIZATION

It is possible to specify five types of small and medium-sized companies from the perspective of their experiences with involvement in international economic and trade relationships:

1. Curious

They have considered international activities in the past. However, they have performed a very low level of self-analysis and have little knowledge of key problem areas. The majority of the companies in this category either gave up or became convinced of the low likelihood of being able to meet the great demands they would face by becoming international players. As far as their products are concerned, they either feel they do not handle the right product or sense they might succeed on the market but don't know how to enter it.

2. Frustrated

They have experience with international activities, but currently do not perform any activities in an international environment. They consider key demands to be strategic planning, marketing skills and issues related to the nature of products. For this group of companies, the entire planning process seems so complex and convoluted that they don't know where to start. The general ruling opinion is that international activities require a different set of managerial skills and that their inability to develop international activities is most likely caused by weakly-developed abilities in this area.

3. Careful (hesitant)

They have limited experience with international activities and have developed certain skills. Their primary problem lies in the fact that they do not have any significant actual decision in this field. They consider market information and the manner in which it is evaluated as the most critical area they face. They believe that their internal structure is appropriate and in order, and that the only real problem is finding customers or partners. These companies have the subsequent tendency to turn to external providers of the applicable services to resolve these problems for them.

4. Enthusiastic

They have significant experience with international activities and are positively tuned to developing this facet of their activities further. These companies identify managerial skills, finance, and market recognition as being key factors for success. They are aware that the demands for a higher level of managerial skills increases together with increased participation in international activities. The issue of financing gains in importance not only from the perspective of acquiring the capital required for expanding international activities, but also as it relates to managing expenses.



Main topic

5. Successful

They have a broad range of experiences with international activities and have enjoyed certain significant successes. They have a high level of abilities and knowledge of developmental issues. They are currently very aware of the forms of support available to them and know how to use them. They are also well aware of the gaps that exist in their abilities and knowledge and are motivated to remove them and improve. They consider the key challenge they face to be managerial skills given the fact that their companies operate in a very complicated business environment. Other requirements are also considered to be important, but, given their positive motivation, easier to resolve.

CONCLUDING COMMENTS AND RECOMMENDATIONS

1. It seems that the internationalization of small and medium-sized companies in the indicated trends and areas is an irreversible trend, which contributes to strengthening the competitive environment and improves market functionality in the EU. Active participation in this process is considered to be a comparative advantage.

2. The players – small and medium-sized enterprises – as well as the creators of economic policies are well aware of the barriers that small and medium-sized enterprises face within the framework of the aforementioned trend.

3. All parties agree that the most critical obstacles include lack of operating capital for financing exports and other foreign trade related transactions, identifying foreign business opportunities, limited information with regard to market localization and analysis, and the inability to establish contact with potential foreign customers and partners.

4. The internalization of small and medium-sized enterprises can be supported by instruments instituted by governments and economic policy creators. As has been indicated, this support should be focused primarily on overcoming the tight spots that small and medium-sized enterprises consider to be the most critical.

The first line of assistance could consist of public support for developing business channels and relationships along with programmes focused on these tasks (e.g., support for networking, database of business partners, and the creation of sales and business alliances). The second could be the provision of accessible financial resources, such as credit lines or private capital from individual investors for developing innovation and technological capacities.

Enormous potential exists for various forms of partnerships in the public and private sectors, especially in the area of supporting efficient technological transfers, and including the involvement of universities, research laboratories, and other similar institutions.

The state plays a very important role by ensuring that all forms of intellectual property rights, protected trademarks, patents, etc. are sufficiently protected. Expressed relatively (in comparison to overall balances), the expenses that are outlaid in this area by small and medium-sized enterprises are enormous and misuse can be fatal in the future from the perspective of requirements for the individualization and specialization for the products of these companies.

The task of public institutions and their support can also be seen in the provision of education and training activities, which are focused on providing information on the most modern development trends in the field of internationalizing small and medium-sized enterprises. These activities also focus on such topics as simplifying the creation of consortiums with the goal of joint marketing or common procedures for submitting bids during public tenders, or supporting the creation of clusters as one of the truly utilized and valued methods leading toward a small or medium-sized company becoming an experienced small or medium-sized enterprise operating at an international level.





Country focus

Other than the Czech Republic, the only other member state of the European Union to which we had not paid attention in this column is Slovenia. This most developed descendant of the former Yugoslavia is a star amongst the new member states of the EU. Of these states in Central and Eastern Europe, Slovenia can boast the highest level of economic development and was the first of these countries to adopt the euro, when, at the start of this year, it replaced the former Slovenian tolar.

SLOVENIA

Government type/chief of state	Republic / president Janez Drnovsek
Area (share of EU)	20 273 km2 (0.5%)
Population (share of EU)	2 003 358 (0.4%)
Age structure	0-14 years: 14.1%, 15-64 years: 70.3%, over 65 years: 15.6%
Total GDP (share of EU)	30.45 EUR bn (0.3%)
GDP per capita in PPS	88.8% of EU-25 average
GDP - composition by sector	agriculture: 2.3%, industry and constr.: 33.7%, services: 64.1%
Average inflation	2.5%
Average unemployment	6.0%
GDP growth	5.7%
General govern. balance	-1.4% of GDP
General government debt	27.8% of GDP
Number of NUTS2	1 NUTS2; Slovenia 88.8%

Note: the figures are for 2006, source: EU, CIA

It is possible to consider Slovenia as a silent and problem-free “beau ideal” – especially within the context of the other countries of Central and Eastern Europe. In addition, it has maintained its reputation as a problem-free, loyal, non-aggressive, positively focused country over the entire period of its transformation, specifically since 1991 at which time it broke free of the “shackles” of a federative Yugoslavia.

The first reason behind this difference is the simple fact that Slovenia is an entirely atypical country within Central and Eastern Europe thanks to the very special nature of Yugoslavian socialism, as well as a result of being the most developed region of the former Yugoslavia. Even in the 1970s and 1980s, renowned international countries were in operation in Slovenia. Likewise, Slovenians en masse took advantage of the ability to be “guest workers”, primarily in Austria, Germany, and Italy.

Slovenia’s most problematic period, both economically as well as socially, came about during the late 1980s and early 1990s, at which time all of Yugoslavia was afflicted by severe hyperinflation, which consequently strengthened the process of the dollarization of the Slovenian economy and led to a large portion of domestic savings being allocated to accounts maintained in either dollars or German marks.

This led to the further significant strengthening of the openness and internationality of the Slovenian economy and society, which, taking the size of the country into consideration, is actually viewed as being normal and certain.



Slovenia is the richest country in the Central and East European Region. Thanks to long-term satisfactory growth, it has the best chances for being the first to achieve the average values of EU economic development. (The Czech Republic is second and actually doesn’t lag that far behind.) The fact that the variances in economic and social characteristics between large cities (Ljubljana, Maribor) and rural areas are negligible also differentiates Slovenia from other countries in the region.

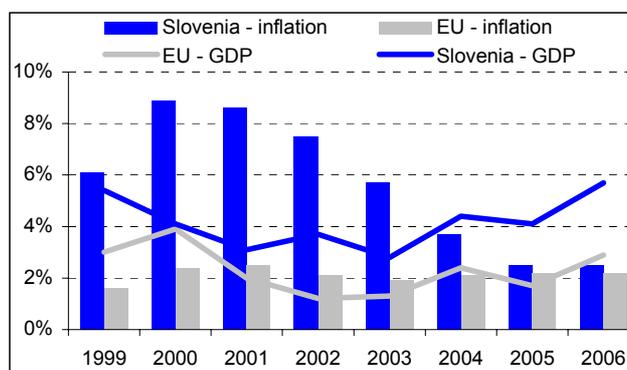
Slovenia’s gravitation towards accession to the EU was just as logical and unambiguous. The only obstacle to its acceptance proved to be the resolution of territorial and property issues pertaining to its relationship with Italy.

Within the framework of the Union, Slovenia became the first of the recent new members that was capable of not only agreeing but also thoroughly preparing for adopting the euro. The implementation of this common EU currency, which has been in effect since the first day of this year, went smoothly.

In addition, thanks to the country’s openness towards the West dating back to the 1970s and 1980s, not only is Slovenia’s relative pricing system entirely adjusted to that in place in western Europe, but the level of nominal prices, including wages, is also the most similar when compared with the other countries in the region.

Another difference that can be mentioned is the fact that the Slovenian economy does not consistently rely as much on the private sector (as is the case with the Czech economy), whereby its share in the creation of added value is only slightly more than 50% (although on an otherwise very competitive market this does not represent an obstacle for true convergence).

Inflation and GDP



Source: Eurostat

Key macroeconomic indicators

in %	GDP growth y-on-y			Current account to GDP*			Unemployment rate			Inflation y-on-y average		
	2004	2005	2006	2004	2005	2006	VI-07	VII-07	VIII-07	VI-07	VII-07	VIII-07
Belgium	3.0	1.1	3.1	3.6	2.5	2.3	7.8	7.7	7.7	1.8	1.3	1.3
Bulgaria	6.6	6.2	6.1	-6.6	-12.0	-15.8	6.8	6.7	6.5	4.4	4.5	5.3
CR	4.2	6.1	6.1	-6.3	-2.7	-4.1	5.5	5.4	5.3	2.7	2.4	2.6
Denmark	2.1	3.1	3.1	3.1	3.6	2.5	3.7	3.3	3.3	1.7	1.7	1.3
Germany	1.2	0.9	2.7	3.9	4.2	4.7	6.5	6.4	6.3	2.0	2.0	2.0
Estonia	8.1	10.5	11.4	-12.5	-11.1	-14.2	5.2	5.5	5.5	5.6	5.9	6.0
Ireland	4.3	5.5	6.0	-1.0	-3.1	-3.3	4.4	4.7	4.7	2.9	2.7	2.8
Greece	4.7	3.7	4.3	-9.5	-9.2	-11.4	8.4	n/a	n/a	2.6	2.6	2.6
Spain	3.2	3.5	3.9	-5.9	-7.5	-8.5	8.1	8.0	8.0	2.5	2.4	2.5
France	2.3	1.2	2.0	-0.6	-2.1	-2.0	8.7	8.7	8.6	1.3	1.2	1.3
Italy	1.2	0.1	1.9	-0.5	-1.2	-2.0	5.9	n/a	n/a	1.8	1.9	1.9
Cyprus	4.2	3.9	3.8	-5.0	-5.6	-5.9	3.8	4.0	3.9	1.6	1.9	1.7
Latvia	8.7	10.6	11.9	-12.9	-12.6	-21.1	5.7	5.6	5.5	8.8	7.8	8.9
Lithuania	7.3	7.6	7.5	-7.5	-6.9	-10.7	4.2	4.3	4.1	4.9	5.0	5.0
Luxembourg	3.6	4.0	6.2	11.8	11.1	8.6	4.9	4.9	5.0	2.5	2.3	2.3
Hungary	4.9	4.2	3.9	-8.4	-6.8	-5.9	7.2	7.3	7.3	8.7	8.4	8.5
Malta	0.4	3.0	2.9	-6.4	-8.3	-6.3	6.4	6.3	6.4	-1.1	-1.0	-0.6
Netherlands	2.0	1.5	2.9	8.6	7.1	9.9	3.3	3.2	3.3	1.9	2.0	1.8
Austria	2.4	2.0	3.1	2.1	2.9	3.7	4.3	4.3	4.3	1.8	1.9	1.9
Poland	5.3	3.5	6.1	-4.4	-1.7	-2.3	9.6	9.4	9.1	2.2	2.3	2.6
Portugal	1.3	0.5	1.3	-8.0	-9.6	-9.8	8.2	8.2	8.3	2.8	2.4	2.4
Romania	8.5	4.1	7.7	-5.0	-8.7	-10.3	6.8	7.1	7.2	3.8	3.9	3.9
Slovenia	4.4	4.0	5.2	-2.6	-2.0	-2.7	4.9	4.9	4.8	2.9	3.1	3.8
Slovakia	5.4	6.0	8.3	-2.5	-7.9	-7.7	11.2	11.1	11.1	2.0	1.5	1.5
Finland	3.7	2.9	5.5	7.7	4.9	5.9	6.8	6.9	6.9	1.5	1.3	1.4
Sweden	4.1	2.9	4.4	6.5	5.8	7.0	5.6	5.4	5.5	1.6	1.2	1.3
UK	3.3	1.9	2.8	-1.6	-2.4	-3.4	5.2	n/a	n/a	2.8	2.5	2.4
EU	2.5	1.7	3.0	0.2	-0.5	-0.7	6.8	6.8	6.7	2.2	2.1	2.2

in %	Public budget to GDP*			Public debt to GDP			GDP per capita to Ø EU			Price level to Ø EU		
	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006
Belgium	0.0	-2.3	0.2	94.3	93.2	89.1	119.3	118.0	117.7	104.4	104.0	104.1
Bulgaria	2.2	1.9	3.3	37.9	29.2	22.8	32.4	33.7	35.0	41.2	42.0	43.6
CR	-2.9	-3.5	-2.9	30.7	30.4	30.4	72.1	73.6	75.9	54.2	57.5	60.1
Denmark	2.0	4.7	4.2	44.0	36.3	30.2	119.4	121.7	122.0	137.9	138.7	137.9
Germany	-3.7	-3.2	-1.7	65.7	67.9	67.9	111.1	109.9	110.2	103.4	102.7	102.2
Estonia	2.3	2.3	3.8	5.2	4.4	4.1	53.4	59.7	65.0	62.0	63.6	66.3
Ireland	1.4	1.0	2.9	29.7	27.4	24.9	135.6	138.7	139.7	124.1	123.6	124.0
Greece	-7.9	-5.5	-2.6	108.5	107.5	104.6	81.4	84.0	85.1	86.2	87.4	88.2
Spain	-0.2	1.1	1.8	46.2	43.2	39.9	96.6	97.8	97.5	89.8	91.1	92.2
France	-3.6	-3.0	-2.5	64.3	66.2	63.9	107.6	108.4	107.1	109.2	106.5	106.0
Italy	-3.5	-4.2	-4.4	103.8	106.2	106.8	103.1	100.6	99.4	104.0	103.3	103.3
Cyprus	-4.1	-2.3	-1.5	70.3	69.2	65.3	87.6	88.8	88.4	89.5	88.2	88.5
Latvia	-1.0	-0.2	0.4	14.5	12.0	10.0	43.7	48.6	53.3	54.8	55.7	58.2
Lithuania	-1.5	-0.5	-0.3	19.4	18.6	18.2	49.0	52.0	54.8	52.5	54.0	55.8
Luxembourg	-1.2	-0.3	0.1	6.6	6.1	6.8	240.7	250.8	256.9	103.8	103.5	104.0
Hungary	-6.5	-7.8	-9.2	59.4	61.7	66.0	61.3	62.5	63.5	60.9	62.5	59.3
Malta	-5.0	-3.1	-2.6	73.9	72.4	66.5	72.0	71.6	71.4	71.9	72.0	72.7
Netherlands	-1.8	-0.3	0.6	52.6	52.7	48.7	124.6	125.4	125.5	104.7	103.5	103.1
Austria	-1.2	-1.6	-1.1	63.9	63.5	62.2	123.4	122.8	122.9	101.8	100.9	100.2
Poland	-5.7	-4.3	-3.9	45.7	47.1	47.8	48.6	49.7	51.2	52.6	61.1	62.2
Portugal	-3.3	-6.1	-3.9	58.2	63.6	64.7	72.1	71.6	70.4	85.7	84.1	84.6
Romania	-1.5	-1.4	-1.9	18.8	15.8	12.4	32.6	34.2	35.9	43.8	55.0	57.9
Slovenia	-2.3	-1.5	-1.4	28.9	28.4	27.8	79.9	81.8	83.6	74.5	74.8	75.0
Slovakia	-2.4	-2.8	-3.4	41.5	34.5	30.7	54.4	57.1	60.2	54.2	55.2	57.6
Finland	2.3	2.7	3.9	44.1	41.4	39.1	111.1	110.4	113.0	122.3	122.2	121.2
Sweden	0.8	2.1	2.2	52.4	52.2	46.9	115.4	114.6	115.7	120.3	117.3	116.6
UK	-3.1	-3.1	-2.8	40.3	42.2	43.5	118.0	117.5	117.0	106.7	108.0	109.1
EU	-2.7	-2.4	-1.7	62.5	63.3	62.2	100.0	100.0	100.0	100.0	100.0	100.0

Source: Eurostat, *) net balance, GDP per capita according to PPP

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